

ORDER NO. 6050

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ashley E. Poling, Vice Chairwoman;
Mark Acton;
Ann C. Fisher; and
Robert G. Taub

Periodic Reporting
(Proposal Six)

Docket No. RM2021-9

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL SIX)

(Issued December 1, 2021)

I. INTRODUCTION

On September 28, 2021, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate an informal rulemaking proceeding to consider a change to an analytical principle relating to periodic reports.¹ Proposal Six would modify the First-Class Mail presort letters and cards model to disaggregate the costs of machinable metered letters and nonmachinable metered letters. Petition at 1. For the reasons discussed below, the Commission approves Proposal Six.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles, September 28, 2021 (Petition). The proposal is attached to the Petition (Proposal Six).

II. PROCEDURAL HISTORY

On September 30, 2021, the Commission issued a notice initiating this proceeding, soliciting public comment, and appointing a Public Representative.² On October 21, 2021, Chairman's Information Request No. 1 was issued.³ On October 27, 2021, the Postal Service provided its response to CHIR No. 1.⁴

The Commission received comments from the Public Representative⁵ and the Greeting Card Association⁶ (GCA) on October 28, 2021. No other parties filed initial comments. On November 4, 2021, the Postal Service filed reply comments.⁷

III. BACKGROUND

In Docket No. R2021-2, the Postal Service replaced the sole price for all First-Class Mail nonautomation presort categories with distinct prices for Nonmachinable 5-Digit Letters, Nonmachinable 3-Digit Letters, Nonmachinable Mixed ADC Letters, Nonautomation Machinable AADC Letters, and Nonautomation Machinable Mixed AADC Letters.⁸ The Commission accepted the changes to the Mail Classification Schedule (MCS) for Nonautomation Machinable Letters and Nonmachinable Letters but did not accept the Postal Service's position that the Nonmachinable Mixed ADC Letters price is not a workshare discount. The Commission directed that the Postal Service

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Six), September 30, 2021 (Order No. 5992).

³ See Chairman's Information Request No. 1, October 21, 2021 (CHIR No. 1).

⁴ See Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, October 27, 2021 (Response to CHIR No. 1).

⁵ Public Representative Comments, October 28, 2021 (PR Comments).

⁶ Comments of the Greeting Card Association, October 28, 2021 (GCA Comments).

⁷ Reply Comments of the United States Postal Service Regarding Proposal Six, November 4, 2021 (Postal Service Reply Comments). The Postal Service Reply Comments were accompanied by a motion for leave to file reply comments. Motion of the United States Postal Service for Leave to File Reply Comments Regarding Proposal Six, November 4, 2021 (Motion). The Motion is granted.

⁸ Docket No. R2021-2, United States Postal Service Notice of Market-Dominant Price Change, May 28, 2021.

develop a methodology to disaggregate metered mail into the machinable and nonmachinable components for use as benchmarks for the new Nonautomation Machinable Mixed AADC Letters and Nonmachinable Mixed ADC Letters rates.⁹

IV. PROPOSAL SIX

A. Methodology

Proposal Six responds to the Commission's directive in Docket No. R2021-2 by revising the First-Class Mail letters cost model to disaggregate metered mail by machinability status: machinable and nonmachinable. Petition, Proposal Six at 2. The Postal Service states that the In-Office Cost System (IOCS) does not have sufficient information to develop separate mail processing cost estimates for machinable metered mail and nonmachinable metered mail letters. *Id.* Due to these data limitations, the Postal Service uses the First-Class Mail letters mail processing cost model, as opposed to the IOCS, to disaggregate costs between machinable and nonmachinable categories. *Id.* at 2-3. The mail processing cost models "can estimate disaggregated costs because they contain processing mail flows through all workshared activities for each subpopulation, such as presort rate" (Mixed AADC, AADC, 5-Digit) or machinability (machinable, nonmachinable). *Id.* at 3. The Postal Service states that "the same methodology that is used to disaggregate IOCS-derived mail processing unit costs for [First-Class Mail] presorted letter costs by rate category is used to disaggregate metered mail letter costs by machinability" in its proposal. *Id.*

⁹ Docket No. R2021-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, July 19, 2021, at 82 (Order No. 5937).

B. Impact

The Postal Service outlines the impacts of Proposal Six in Table 1 and Table 2 of the proposal. *Id.* at 4-5. The Postal Service estimates that the worksharing-related unit costs will be 13.123 cents for Machinable Metered Letters and 44.824 cents for Nonmachinable Metered Letters. *Id.* at 4. Avoided costs will decrease \$0.001 for Automation Mixed AADC Letters and \$0.002 for Nonautomation Machinable Mixed AADC Letters. *Id.* at 5. The Postal Service estimates \$0.101 in avoided costs for Nonautomation Nonmachinable Mixed ADC Letters. *Id.*

V. COMMENTS

The Commission received comments from the Greeting Card Association (GCA) and from the Public Representative. The Commission also received reply comments from the Postal Service.

GCA does not oppose the proposed methodology for calculating the avoidable costs of the new benchmarks, but it argues that the difference between the estimated costs of the nonmachinable and machinable metered letter benchmarks should not be relied upon in a rate-setting context to justify setting a nonmachinable surcharge or otherwise be incorporated into rates for First-Class Mail Single-Piece Letters. GCA Comments at 2, 4.

In Docket No. R2006-1, GCA conducted an experiment in which it sent 504 machinable letters and 504 nonmachinable letters, then measured the percentages of each mailing that presented evidence of machine processing. *Id.* at 3. GCA asserts that the results show a high percentage of nonmachinable cards received machine handling. *Id.* at 4. GCA draws a distinction between the purpose of modeling cost avoidances and that of measuring cost differences for the design of non-worksharing rates. *Id.* at 2. It concludes that the modeling assumptions used in Proposal Six may be acceptable for calculating avoided costs as proposed, but the results of its experiment demonstrate that the assumptions do not accurately reflect the processing differences between machinable and nonmachinable mail. *Id.* at 2-4.

In general, the Public Representative supports the proposed methodology for deaveraging metered mail as it “appears to be consistent with the operational realities as presented by the Postal Service.” PR Comments at 2. The Public Representative notes that she has no way to independently verify the Postal Service’s descriptions of mail processing operations. *Id.* However, she finds that the Postal Service has “...a reasonable rationale for its chosen entry points in its model for nonmachinable [bulk metered mail (BMM)] in its response to CHIR 1, Question 1.” *Id.*

The Public Representative also questions the use of Nonautomation Machinable Mixed AADC Letters as a proxy for the unit delivery cost of Machinable Metered Letters, stating that “[t]he Postal Service has not presented a rationale for assuming that the two categories would have identical or even similar DPS profiles.” *Id.* at 2-3. The Public Representative supports the approval of Proposal Six with the caveat that the Commission can verify that the use of Nonautomation Machinable Mixed AADC Letters unit delivery costs as a proxy for Machinable Metered Letters is reasonable. *Id.* at 3.

In response to the Public Representative’s concerns, the Postal Service filed reply comments on November 4, 2021. In its reply comments, the Postal Service asserts that the use of the delivery costs of Nonautomation Machinable Mixed AADC Letters as a proxy for the machinable metered letters benchmark is consistent with the methodology previously confirmed by the Commission in Docket No. RM2010-13. Postal Service Reply Comments at 2. In that docket, the Commission found that Nonautomation Machinable Mixed AADC Letters were the best available proxy for the avoidable delivery cost of the BMM benchmark.¹⁰ The Postal Service also states that its data collection systems cannot be used to separate delivery unit costs for machinable and nonmachinable letters, therefore it continued to use Machinable Mixed AADC Letters delivery cost as a proxy for the machinable metered letters benchmark. Postal Service Reply Comments at 2. The Postal Service also asserts that this proxy is even

¹⁰ Docket No. RM2010-13, Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts, April 20, 2012, at 23 (Order No. 1320).

more appropriate now that the cost benchmark has been deaveraged for machinability.

Id. The Postal Service notes that the metered letters cost estimates include collection costs, while presort letters cost estimates do not, and states that this demonstrates that consideration has been given as to how delivery costs for metered letters and presort letters differ. *Id.* at 3.

VI. COMMISSION ANALYSIS

Based upon review of Proposal Six, the workpapers filed in support of Proposal Six, Response to CHIR No. 1, and the Public Representative's and GCA's comments, the Commission approves Proposal Six because it finds that the proposal will improve the quality, accuracy, and completeness of the data contained in the Postal Service's periodic reports. See 39 C.F.R. § 3050.11. The development of separate benchmarks for machinable and nonmachinable nonautomation presort discounts will result in more complete and accurate estimates of cost avoidance for nonautomation presort letters. The Commission also notes that Proposal Six incorporates a correction to the BMM letters cost model that was previously approved but not applied to the BMM model. Response to CHIR No. 1, question 2. This correction will also improve the accuracy of the cost avoidance estimates for First-Class Mail Automation Mixed AADC Letters.

The Commission finds the use of Nonautomation Machinable Mixed AADC Letters delivery costs as a proxy for the machinable metered letters benchmark is reasonable. The Commission has used the delivery costs of Nonautomation Machinable Mixed AADC Letters to represent the delivery costs of the BMM benchmark since Docket No. R2006-1. In Docket RM2010-13, the Commission found that Nonautomation Machinable Mixed AADC Letters provided the best available estimate of the delivery costs that would be avoided by worksharing metered mail. Order No. 1320 at 23. The record in this case provides no reason to change this conclusion, and the Postal Service states that the same circumstances continue to apply today. Postal Service Reply Comments at 3. For these reasons, the Commission continues to find

the Nonautomation Machinable Mixed AADC delivery costs to be an appropriate proxy for the delivery costs of the machinable metered letters benchmark.

In its review of Proposal Six, the Commission noted a discrepancy between the most recent modeled cost for BMM letters of 5.608 cents¹¹ and the proposed modeled costs for BMM letters of 6.140 cents for machinable and 23.362 cents for nonmachinable. Because the most recent BMM letters cost was less than each of the results of the proposed models, an information request was issued to ask the Postal Service to clarify this counterintuitive result. CHIR No. 1, question 2.

In its response, the Postal Service explains that the machinable BMM model is equivalent to the prior BMM letters model, and “[t]he model presented in this docket does not disaggregate previous BMM estimates into BMM machinable and BMM nonmachinable mail, but rather, introduces the concept of nonmachinable BMM, which did not exist before.” Response to CHIR No. 1, question 2. It explains that the difference between the proposed machinable BMM cost and the prior BMM letters cost is caused by a correction to incorporate changes approved in Docket No. RM2019-1 (Proposal Eight). *Id.* In Proposal Eight, the Postal Service proposed to correct the Delivery Bar Code Sorter Input/Output Subsystem operations’ treatment of rejects to that of traditional Output Subsystem (OSS)/Input Subsystem (ISS) operations for treatment of pieces flowing to manual operations and to OSS operations.¹² Initially, this modification was not applied to BMM letters. Response to CHIR No. 1, question 2. Because machinable BMM and Machinable Mixed AADC Letters share identical mail flows, the Postal Service believes that it is appropriate to extend the treatment approved in Order No. 4894 to BMM letters.¹³ After making this adjustment, “[t]he increase in the

¹¹ Docket No. ACR2020, Library Reference PRC-LR-ACR2020-3, March 29, 2021, Excel file “PRC-FY20-FCM Letters.xlsx.”

¹² Docket No. RM2019-1, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Eight), October 5, 2018.

¹³ *Id.*; see Docket No. RM2019-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Eight), November 28, 2018 (Order No. 4894).

amount of mail processed manually caused the modeled BMM letters cost in Proposal Six (using all the other FY 2020 ACR inputs) to increase from 5.608 cents to 6.140 cents.” Response to CHIR No. 1, question 2.

VII. CONCLUSION

The Commission evaluates proposed changes to analytical principles to assess whether they “improve the quality, accuracy, or completeness of the data or analysis of data” contained in the Postal Service’s periodic reports. 39 C.F.R. § 3050.11(a). The Commission concludes that the changes presented in Proposal Six improve the accuracy and completeness of the First-Class Mail cost avoidance estimates, and it therefore approves the proposed changes.

VIII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Six are approved. This includes applying the revisions to the Delivery Bar Code Sorter Input/Output Subsystem operations’ treatment of rejects previously approved in Order No. 4894 to the machinable BMM cost model used to estimate cost avoidances for automation and nonautomation machinable presort letters.

By the Commission.

Erica A. Barker
Secretary